

FDIC State Profile

Fall 2005

Vermont

Vermont's employment continues to expand following the 2001 recession.

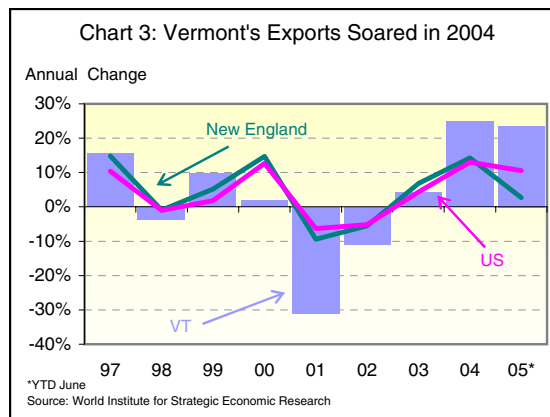
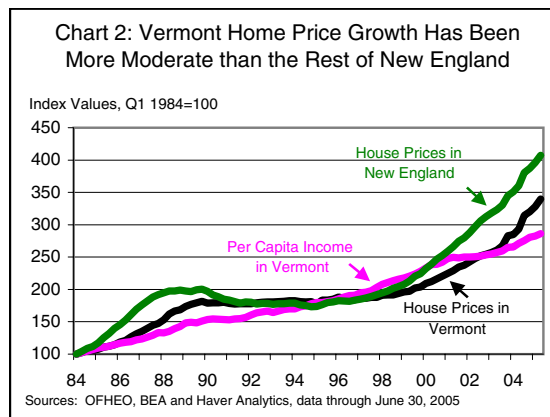
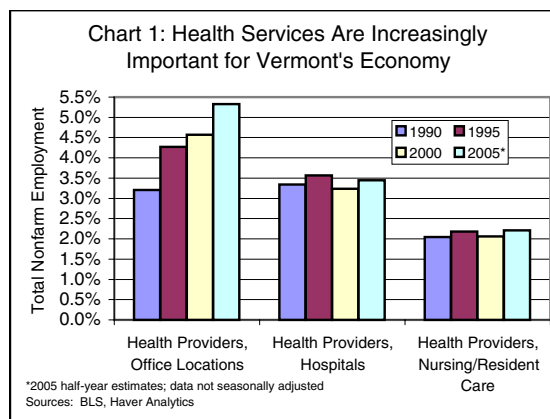
- Vermont lost 7,500 jobs, or 2.5 percent of total nonfarm employment, during the recession and its aftermath. Those losses were reversed by September 2004. Since then, growth has been ongoing, amounting to over 4,500 jobs, or 1.5 percent, from the previous peak.
- Unemployment in Vermont has declined significantly. For most of this year, it has hovered at or near 3.5 percent, which is well below the national rate.

Health care jobs have grown in importance in Vermont.

- Employment in health services has increased substantially over time and accounts for an increasing percentage of nonfarm employment (see Chart 1). Increases were heavily concentrated in medical offices outside of hospitals, rather than in hospitals or in nursing and resident care facilities.
- The share of health services employment in Vermont is below the regional average but significantly above the national. As of the first half of this year, employment in health services was 11.0 percent in Vermont, compared to 11.5 percent for all of New England and 9.2 percent nationally. Vermont's percentage of health services provided in medical office locations is the highest in New England.

House prices have continued to rise rapidly in Vermont.

- Since 1984, house prices in Vermont have experienced much larger increases and declines historically than has per capita personal income (see Chart 2). Increases in house prices through the second quarter 2005 averaged 5.9 percent per year, compared to an average increase in per capita income of 5.1 percent. Declining mortgage rates contributed to the strength in house prices, as the 30-year conventional rate ranged from a high of over 13 percent in 1984 to a low during 2003 of 5.5 percent.
- New England house prices declined each year from 1990 to 1994, totaling 11.5 percent; but in Vermont prices fell by less than 1.0 percent.



- Over the four quarters ended in second quarter 2005, house prices rose by 15.8 percent in Vermont. Only Rhode Island had a faster pace in New England. House prices in the region rose by 13.0 percent, while nationally the increase was 13.4 percent. These increases—in the state, region, and nation—have been very impressive, but are unlikely to be sustained given the slower rate of per capita income growth and current upward trends in interest rates.

Vermont's export sector is highly concentrated.

- Exports of computers and electronic equipment have grown an average 33 percent year-over-year for the last seven quarters. At 82 percent of total state exports, this category drives both the booms and the busts in Vermont's export sector (see Chart 3).
- Exports are a very significant part of the Vermont economy, directly accounting for a substantial 15 percent of gross state product (GSP), more than double the national average of 7 percent. Furthermore, indirect effects of export activity greatly magnify the economic impact of exports.
- In 1997, exports directly accounted for 25 percent of GSP. The unusual volatility is due to the undiversified nature of Vermont's exports. This industry in Vermont is highly concentrated in one company—IBM. The tech bust, and subsequent slowdown in global demand for these products explains the decrease in exports' share of the state's economy since 1997. In 2004, the recovery in this sector took hold, and Vermont's exports increased significantly.

Community institutions remain profitable in Vermont as mortgage lenders maintain improvements since 2001.

- Vermont's community institutions¹ remained profitable through the second quarter of 2005 and earnings in the community mortgage specialists² continued to hold steady after rebounding in 2001 (see Chart 4). Community non-mortgage lenders reported improved net interest income and stable noninterest income and expenses. Net interest margins also improved as asset yields increased offsetting small increases in funding costs.
- The state's community mortgage specialists reported increased earnings as of June 30, 2005, maintaining improvements which began in 2001. The latest increases resulted from a rebound in net interest income and stable expenses. Net interest margins also improved as asset yields increased faster than funding costs.

¹Insured institutions with assets of less than \$1 billion, excluding institutions less than three years old and specialty institutions.

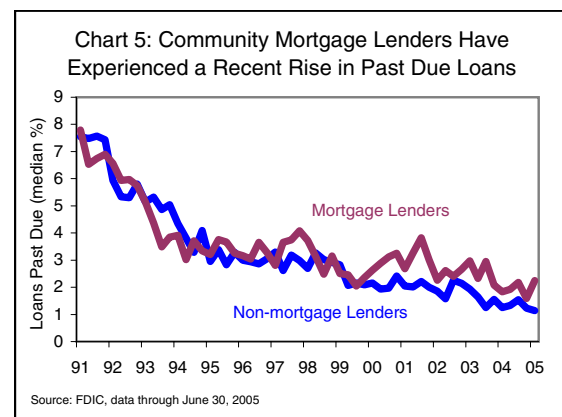
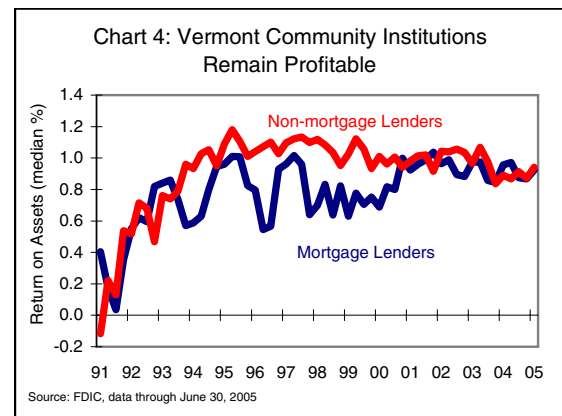
²Insured institutions with assets of less than \$1 billion with mortgage-related assets greater than 50 percent of total assets.

Vermont's community institutions report low loan delinquencies.

- Loan quality has generally been strong since the New England economy began to recover in the early 1990s, but delinquencies in Vermont's community institutions were higher than other New England states as of June 30, 2005 (see Chart 5). Commercial related loans exhibit the highest delinquency rates in the state's community institutions.

The hurricanes could increase energy costs and affect consumer spending.

- The direct effects from Hurricanes Katrina and Rita on Vermont's economy were slight, but higher energy costs occasioned by the storms could be felt for some time. New England already has the highest residential cost per kilowatt hour of electricity in the country. This past year New England was the coldest region in the United States. Even before the hurricanes, a sharp increase in heating costs previously forecast for this year could reduce consumer purchases.



Vermont at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q2-05	Q1-05	Q2-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.5%	1.8%	1.6%	1.3%	-0.1%
Manufacturing (12%)	1.3%	1.5%	-2.3%	-1.3%	-7.5%
Other (non-manufacturing) Goods-Producing (6%)	5.2%	6.6%	10.9%	7.8%	3.2%
Private Service-Producing (65%)	1.2%	1.5%	2.0%	1.5%	0.6%
Government (17%)	1.6%	1.7%	0.1%	0.7%	2.2%
Unemployment Rate (% of labor force)	3.3	3.5	3.6	3.7	4.5

Other Indicators	Q2-05	Q1-05	Q2-04	2004	2003
Personal Income	5.8%	6.7%	6.2%	5.8%	3.4%
Single-Family Home Permits	-0.9%	-20.4%	18.8%	11.4%	4.8%
Multifamily Building Permits	-53.1%	-56.4%	229.5%	110.5%	-38.4%
Existing Home Sales	19.6%	N/A	-12.1%	-2.1%	11.5%
Home Price Index	15.8%	15.2%	12.4%	13.5%	7.2%
Bankruptcy Filings per 1000 people (quarterly annualized level)	3.50	2.80	2.95	2.71	3.20

BANKING TRENDS

General Information	Q2-05	Q1-05	Q2-04	2004	2003
Institutions (#)	19	19	19	19	19
Total Assets (in millions)	7,960	7,852	7,507	7,866	7,453
New Institutions (# < 3 years)	0	0	0	0	0
Subchapter S Institutions	0	0	0	0	0

Asset Quality	Q2-05	Q1-05	Q2-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.27	1.23	1.34	1.46	2.01
ALLL/Total Loans (median %)	1.19	1.18	1.22	1.19	1.26
ALLL/Noncurrent Loans (median multiple)	2.46	2.90	2.07	2.38	1.88
Net Loan Losses / Total Loans (median %)	0.04	0.01	0.03	0.05	0.09

Capital / Earnings	Q2-05	Q1-05	Q2-04	2004	2003
Tier 1 Leverage (median %)	9.09	8.97	8.81	8.75	8.64
Return on Assets (median %)	0.97	0.90	1.07	0.99	0.98
Pretax Return on Assets (median %)	1.30	1.23	1.40	1.32	1.39
Net Interest Margin (median %)	4.35	4.29	4.27	4.31	4.39
Yield on Earning Assets (median %)	5.93	5.71	5.40	5.55	5.75
Cost of Funding Earning Assets (median %)	1.25	1.01	0.99	0.99	1.37
Provisions to Avg. Assets (median %)	0.07	0.08	0.05	0.09	0.11
Noninterest Income to Avg. Assets (median %)	0.65	0.65	0.78	0.72	0.89
Overhead to Avg. Assets (median %)	3.54	3.47	3.52	3.46	3.51

Liquidity / Sensitivity	Q2-05	Q1-05	Q2-04	2004	2003
Loans to Assets (median %)	72.8	68.6	67.3	68.4	68.0
Noncore Funding to Assets (median %)	15.2	14.1	9.7	12.6	10.6
Long-term Assets to Assets (median %, call filers)	22.2	21.8	23.8	21.3	24.0
Brokered Deposits (number of institutions)	4	5	5	5	2
Brokered Deposits to Assets (median % for those above)	1.0	0.6	0.3	0.6	0.1

Loan Concentrations (median % of Tier 1 Capital)	Q2-05	Q1-05	Q2-04	2004	2003
Commercial and Industrial	82.7	78.9	70.3	77.6	66.8
Commercial Real Estate	235.2	240.7	215.2	242.4	203.1
<i>Construction & Development</i>	25.8	23.2	22.2	26.8	19.6
<i>Multifamily Residential Real Estate</i>	12.4	13.1	10.1	13.4	14.6
<i>Nonresidential Real Estate</i>	176.2	177.2	182.0	185.2	170.2
Residential Real Estate	320.2	321.5	328.9	326.1	346.3
Consumer	37.6	39.5	40.5	39.5	42.7
Agriculture	6.0	6.6	4.7	5.7	6.5

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Burlington-South Burlington, VT	9	3,128	< \$250 million	11 (57.9%)
			\$250 million to \$1 billion	6 (31.6%)
			\$1 billion to \$10 billion	2 (10.5%)
			> \$10 billion	0 (0%)